



The impact of economic inflation on the growth and development of small and medium enterprises (SMEs) in Iran

Faramarz Chiani ¹

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Abstract

Purpose: An increase in the prices level has relatively large negative consequences for the economy. When the salary of the labors force does not match the inflation rate of the retail prices, the purchasing power of the labor force will decrease, in addition, as the prices of goods continues to increase, the demand of the labors force for an increase in wages will lead to an increase in the cost of labors and as a result to a decrease in the earned profit which is carried out by economic enterprises and businesses. Therefore, the purpose of this research is to consider of the negative impact of economic inflation on the growth and development of small and medium enterprises (SMEs) in Iran has been investigated. The research is applied research and the method of data collection is descriptive. **Methodology:** The statistical data was collected using a self-made professional questionnaire and the collected data was processed by SPSS software and used for analysis and conclusions. Iran is the city of Tehran. The statistical sample in this study includes 384 people who were selected based on the Krejcie & Morgan table. Regression model was used to analyze the statistical data in this research. **Findings:** The results obtained by analyzing the data from the software clearly show that high economic inflation has had a negative impact on the growth and development of small and medium-sized companies.

Keywords

Inflation, Growth, Development

1. IAU. (faramarzchiani@gmail.com)

Introduction

Inflation is the decrease in the purchasing power of a certain currency over time. An increase in the general level of prices, which is generally expressed as a percentage, means that a certain amount of goods can be bought with a certain currency. The common meaning of inflation refers to an increase in the level of prices, but it is not bad to mention that there is also the possibility of negative inflation in the economy. It can also be said that inflation does not exist and is not defined in the clearing economy. However, the common meaning of inflation refers to an increase in the level of prices and relatively large negative consequences for the economy, when the wage of the labor force does not match the inflation rate of retail prices, the purchasing power of the wages and consequently the purchasing power of the labor force decreases. This is a significant challenge for low-income families because for them any price increase can have consequences. In addition, in the continuation of the increase in the price of goods, the labor force's demand for an increase in wages leads to an increase in the cost of labor, which leads to a decrease in the profit earned by economic enterprises and businesses. All these effects caused by inflation can create uncertainty in the economy, which leads to a decrease in investment by entrepreneurs. High inflation can lead to a permanent increase in interest rates. These interest rates can limit the central bank's ability to boost the economy in tough times, leading to long and deep recessions. The growth of the monetary base ultimately leads to the growth of liquidity and thus inflation. This increase in liquidity can be through over drafting by banks from the central bank, reducing the legal reserve rate, buying bonds. Government participation by the central bank, government borrowing from the central bank, etc. (Shakri, 1387) Any issue that causes a significant decrease in the supply or a significant increase in the demand for foreign currency in the foreign exchange market, It can lead to an increase in the exchange rate. If the exchange rate increases a lot, this can have an effect serious inflation follows. (McCarthy, 2007)

Economists divide the causes of inflation into the following 3 categories.

- Inflation caused by demand pressure
- Inflation caused by cost pressure
- Structural inflation
- Inflation caused by demand pressure occurs with an increase in money supply and acts as a stimulus to increase the demand for goods and services in the economy.
- Cost-push inflation occurs when the general level of prices increases due to an increase in the cost of wages and raw materials.
- Structural inflation is caused by adaptive expectations. It means that people expect the current inflation rate to continue in the future.

Based on chart number 1, which shows the inflation trend between 2013 and 2014, we can conclude that in Iran, all 3 factors continue in a repetitive loop.

Chart - 1
<https://ecoiran.com>

edibles and non-edibles annual inflation trends

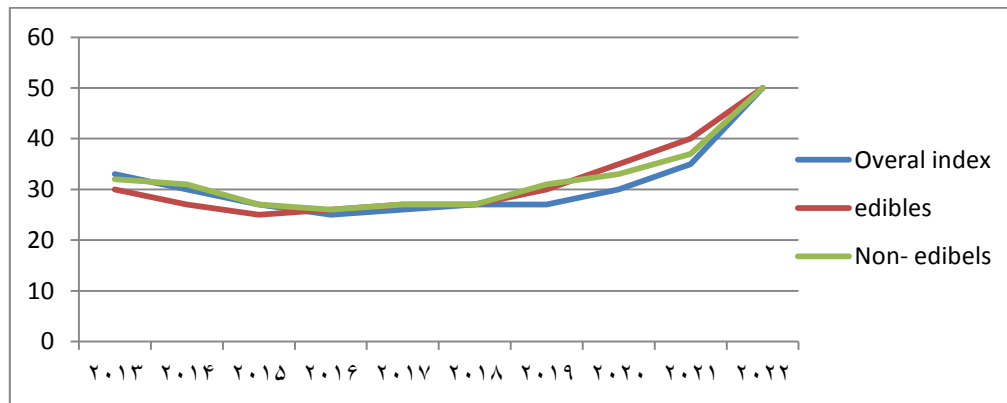


Chart No. 1: It shows the inflation trend between 2013 and 2021. Based on Chart No. 1, which shows the inflation trend between 2013 and 2021, we can conclude that in Iran all 3 factors continue in a repetitive loop.

Literature:

Ghobadi and Kamijani, during a research in 2009, by examining the relationship between monetary policy and government debt and their effect on inflation, concluded that in the long run, the increase in government debt is an effective factor in increasing the volume of money and increasing prices.

During a research in 2014, Naqvi and Shahnooshi, by examining the factors affecting inflation using causal Bayesian maps, conclude that the relationship between inflation rate and budget deficit variables, the ratio of private sector credits to GDP, government debt, exchange rate, government size, and The interest rate is positive and the economic growth rate variable is negative.

During a research in 2013, Mehrara and Ghazanfari investigate the factors affecting inflation with the Bayesian averaging approach and identify the variables of energy price growth, monetary imbalance index, money volume growth and free market exchange rate growth as the most important factors affecting inflation.

Growth

The quantitative change of any variable during a certain period of time is called growth (Mahmoud Motevaseli, 2012).

Growth is the long-term increase in production capacity in order to increase the total supply to meet the needs of the population. Todaro, Michael, (Gholamali Farjadi, 1999)

In fact, the economic growth of any country expresses the continuous growth of production; which in most cases is associated with the increase in population or usually with infrastructure changes (Simon Kuznets, 1993).

It can be said with certainty that no economic system has been organized throughout history, unless the economic growth and development of all its economic sectors for more production is one of its goals. (Ahmed Ali Yousefi, 2007)

Economic growth causes the production possibilities curve to shift outward. This change of location is either caused by an increase in the amount of production resources of the society or caused by technological progress. (Nakhaei Aghmioni, and Najarzadeh, 2002)

Economic growth means an increase in production or national income per capita. If the production of goods or services increases by any possible means in a country, it can be said that economic growth has occurred in that country. Economic growth can be measured in two ways, the first method is the increase in the real gross national product at the level of full employment over time, this method is used to show the increase in the society's production. The second method is the increase in real gross product per capita or real net product per capita over time. This criterion is used to show the standard of living of the people of the society and compare it with other countries.

Development

Economic growth refers to a small and continuous increase in production with an increase in labor, capital and trade volume, but economic development has a broader meaning. Development deals with qualitative changes in the type of production, production structure, motivations and economic demands. The goals of development, in addition to the possibility of access to goods and services that sustain human life, to increase the level of living standards and benefit people from material and spiritual gifts, including higher incomes, better health, better quality education, more attention to cultural values, freedom. It deals with ideas, promotion of civil rights of people, etc. In growing societies, the government plays a fundamental role as a tool for achieving economic growth and development. (Romer, 2010)

Economic development in a general definition is economic growth with qualitative changes. In other words, economic development includes quantitative and qualitative dimensions of change in economic variables not mechanically but organically and biologically. In another definition, economic development has been considered as comprehensive and all-round improvement of the standard of living and welfare of the society (Motevaseli, 2012).

Today, many economists distinguish between growth and development. In the definition of growth, more emphasis is placed on economic and quantitative parameters such as annual income or production that increases gradually in the long term, but on the other hand, it also includes the development of intellectual and social changes in the growing society. Therefore, the scope of development is wider than growth and it is also a multi-dimensional process which, in addition to improving production and income, also includes fundamental transformation in social and administrative structures. Also, in terms of the goal, in addition to the quantitative increase of products and services, development includes qualitative transformation in the social fabric of society, fair distribution of wealth and income, poverty alleviation, job creation, elimination of deprivation and provision of general welfare and cultural development. In other words, economic development has a broader and more comprehensive concept that includes, in addition to quantitative growth, how technical and organizational changes in the quality of production and allocation of human and material resources and the reduction of inequality and poverty are also included. Therefore, economic development, in addition to increasing production, provides favorable conditions in the social and economic structure of the society, which guarantees the continuation of economic growth, and classified underdeveloped. Before the concept of development, the concept of growth was mostly used until it became clear in the 70s that this concept is not expressive to

show the state of societies. The concept of growth was mostly used about the economic situation of the society and was measured by the gross national product. But after some time, it became clear that the amount of gross domestic product of countries, and even their gross domestic product per capita, alone is not a suitable measure to show their overall situation. This concept did not show how the gross national product is distributed in the society, or whether the level of economic inequality in the society is low or high. Also, the concept of growth does not measure the social, political, and cultural status of the society. Therefore, several decades of experience of third world countries showed that economic growth is not the basis of the growth of other dimensions of society and another concept should be used to show the state of societies. The concept of development, in addition to the economic status of societies, also considers the level of inequality, the status of human resources, and the social and political status of the society, so that when a country is considered developed, all the different dimensions of the society are promoted together with the necessary coordination. At the same time, social, economic and political justice should be realized in the society. In fact, the concept of development from power to action shows the coordinated achievement of different abilities of a society.

Research model and method

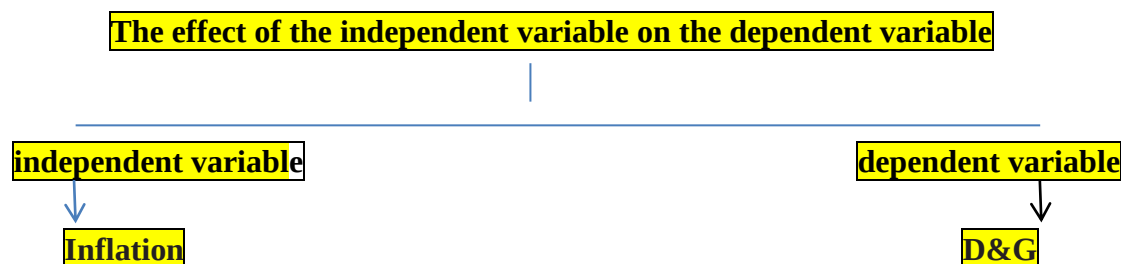
A model is a representation of reality, because systems always have complex behaviors due to interaction with their internal components and external interaction with the environment outside the system. Therefore, due to these complexities, it is necessary for researchers to understand, explain or predict the behavior of a system, based on the desired variables and parameters, to make a model of it and to check the results by applying and making changes in it.

The main research question:

Does economic inflation affect the growth and development of small and medium enterprises (SMEs) in Iran?

Research model and structure:

Chart – 2- Model



The mathematical model of the research in this research is:

$$INF = \beta_0 + (\beta_1 Q_1 + \beta_2 Q_2 + \beta_3 Q_3 + \dots + \beta_{16} Q_{16}) \quad Y = \beta_0 + \beta_1 X$$

In terms of purpose, the current research is applied and considered in the category of quantitative research. In this research, two dependent and independent variables have been used, the independent variable is inflation for short (INF) and the dependent variable for growth and development for short (G&D). Step wise regression model was used to analyze the statistical data in this research. The main purpose of the research is the impact of inflation on the growth and development of business in small and medium companies in Iran. The main research question in this research is whether economic inflation has an effect on

business growth and development. The main research hypothesis in this study is that economic inflation has an effect on business growth and development. The data collection method was done descriptively and through the field method, so to collect data to confirm or reject the research hypothesis, a data collection tool or (questionnaire) was used. Since it was not possible to accurately determine the total number of senior managers and shareholders of small and medium-sized companies, therefore, the statistical sample in this study was based on the Krejcie & Morgan table and by a simple random method that is used to determine the sample size in unlimited societies selected. Then, by using the mentioned table, the optimal sample size of the maximum number of 384 people was obtained. It is necessary to explain that the questionnaire of this research is of a self-made type with the plan of financial, economic and development issues, which is based on and inspired by the principles and standards of preparing the questionnaire. The questionnaire has 17 questions and the purpose of designing the questionnaire is to evaluate the impact of inflation on the growth and development of small and medium-sized companies in Iran, which consists of 2 dimensions and is scored on a Likert scale (completely agree to completely disagree). For the validity of the questionnaire, its reliability was calculated by Cronbach's alpha, because reliability is one of the characteristics of the questionnaire's measurement tool. Reliability or reliability refers to the degree of stability and stability of a measurement tool, and its concept is to what extent our measurement tool gives the same results in the same conditions. In addition, Cronbach's alpha coefficient is used to measure the one-dimensionality of attitudes, judgments and other categories that are not easy to measure. In this research, for the reliability of the questionnaire, we have used Cronbach's alpha coefficient calculation method in spss software. Cronbach's alpha obtained for 17 questions from 384 people and the obtained result is an acceptable number 0.817. This is acceptable.

Validity is calculated based on the CVI index, the validity or validity of the questionnaire and research refers to its accuracy and answers the question of how much our questionnaire measures the desired characteristic. In this research, we have used the CVI index, which is one of the reliability evaluation methods. To calculate the CVI index, we divide the number of those who have chosen our desired options by the total. The obtained number is the CVI index, which is high in this research and shows that the validity of the questionnaire is confirmed.

(CVI = number of experts who answered the item correctly / Total number)

$$CVI = 70/384 = 0.810$$

he adjusted R value is 0.966, this value shows that 96.6% of the change in factors affecting the impact of inflation on business growth and development has been taken into account, the Watson camera of this model is 1.975, it can be said He said that there is no self-correlation and independence of errors is confirmed. The significance of the whole model was evaluated and since Sig. is smaller than 0.005, the model is significant.

The obtained beta coefficient shows that with more than ninety percent confidence, it can be said that the hypothesis of the research is confirmed and the inflation factor is effective on the growth and development of business, and this effect is 275.5%, in other words, we can say that if If our independent variable, which is a factor in this inflation hypothesis, changes by 100%, the intention to grow and develop the company's business will change by 275.5%. It can be safely said that the inflation factor is effective on business growth and development.

Tables, figures and diagrams

Table 1 – software output

Model Summary ^b						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.966 ^a	.934	.932	.12151	1.975	
ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	77.395	12	6.450	436.816	.000 ^b
	Residual	5.478	371	.015		
	Total	82.872	383			
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.275	.183		12.421	.000
	Q3	.162	.027	.174	6.049	.000
	Q4	-.466	.062	-.511	-7.551	.000
	Q7	.082	.020	.088	4.213	.000
	Q8	-.271	.023	-.291	-12.034	.000
	Q9	.403	.042	.434	9.547	.000
	Q10	.305	.027	.328	11.201	.000
	Q11	-.622	.049	-.712	-12.652	.000
	Q12	-.174	.025	-.187	-6.965	.000
	Q13	.616	.025	.555	24.287	.000
	Q14	-.086	.025	-.091	-3.376	.001
	Q15	-.265	.021	-.271	-12.904	.000
	Q16	.984	.064	1.004	15.322	.000
a. Dependent Variable: Growth						

According to these findings of the software, it can be said that our model is a good model. The ANOVA table shows the amount of changes in the dependent variable that is explained by the independent variables. In this table, the variance of the analysis and the significance of the whole model were evaluated. Fortunately, since Sig. It is smaller than 0.005, our model is a meaningful model. In the table related to the output of the coefficients of the constant value and the coefficient of the independent variable in the regression equation, according to the results of the table, it can be said with more than ninety percent confidence that the researcher's opinion is confirmed and the inflation factor is effective on the growth and development of the company's business. . And this impact rate is 275.5%, in other words, if our independent variable inflation, which is a factor in this hypothesis, changes by 100%, the growth and development of the company's business will change by 275.5%.

Discussion

In this study, the effect of inflation on the growth and development of companies' business was investigated. For this purpose, a questionnaire was designed to investigate each of the

desired variables, and then the questionnaire was distributed among the available statistical population, and the data was collected and analyzed by SPSS software. Based on the results obtained by analyzing the data from the questionnaire, the results were obtained based on the regression data in the SPSS software. Since the adjusted R value was 0.966, this value showed that 96.6 percent of the change in factors affecting the effect of inflation on the growth and development of companies' business has been taken into account, according to which it can be said that this The model is a good model. In addition, considering that the Watson camera statistic of this model is 1.975, it can be said that there is no autocorrelation and the independence of the errors is confirmed. Variance analysis also evaluated the significance of the whole model and since Sig. is smaller than 0.005, the model is significant. Finally, according to the results of the table, with more than ninety percent confidence, it can be said that the researcher's opinion is confirmed. The result of the above research showed that inflation affects the growth and development of companies' business. This means that the variables of this research are a determining and effective factor on the growth and development of companies' business. In other words, if our independent variable inflation, which is the factor in this hypothesis, changes by 100%, the growth and development of the company's business will change by 275.5%. It will have nearly three times the negative impact.

This study has increased the literature and the concepts of inflation as well as the concepts of growth and development in an abstract and brief manner, and by addressing the question, what is the impact of inflation on the growth and development of companies' business? A suitable answer has been sought, a question that has not been so clearly addressed before in the previous literature. The findings of this study confirm that the proposed framework is valid in showing the effect of inflation on the growth and business development of companies, which will be useful for future studies. Finally, this research focused on SMEs in Iran, which can be useful for SMEs in other countries with similar characteristics. The practical implications of the findings of this study can be useful for owners, managers and employees of small and medium-sized companies to help them understand and recognize the impact of inflation on the growth and development of companies' business on their plans and strategies. In addition, it increases their awareness of the factors that moderate the relationship between inflation and business growth and development strategies. It will also be useful for SMEs to plan their strategies according to the findings of this research. The information and findings of this study can be used by owners, managers and employees to adopt appropriate planning.

In addition, the results of this study can help policymakers and governments to implement appropriate policies and initiatives to prevent inflation as much as possible. This encourages SMEs to start formulating formal strategies in times of high economic inflation. Governments are advised to try to control inflation as much as possible to small and medium companies. have helped, in addition, policy makers should remove obstacles to growth and development and provide technical, financial and managerial support.

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